

Bosnia and Herzegovina

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-benefit		
Participation:	♦ Mandatory		
Management:	♦ Publicly-financed		
Financing:	♦ PAYGO		
Coverage:	♦ All workers		
Eligibility:	♦ n/a		

Challenges Facing Pension System

- ☐ Multiple pension systems
- ☐ Accumulation of pension arrears

Summary of Current System

The pension system in Bosnia and Herzegovina is a publicly-managed, defined-benefit system (Pillar I). It is financed on a pay-as-you-go basis. There are currently three separate pension systems in the country, two operate in the Federation, covering the Bosniac- and Croat-majority areas, while the third covers the Republika Srpska.

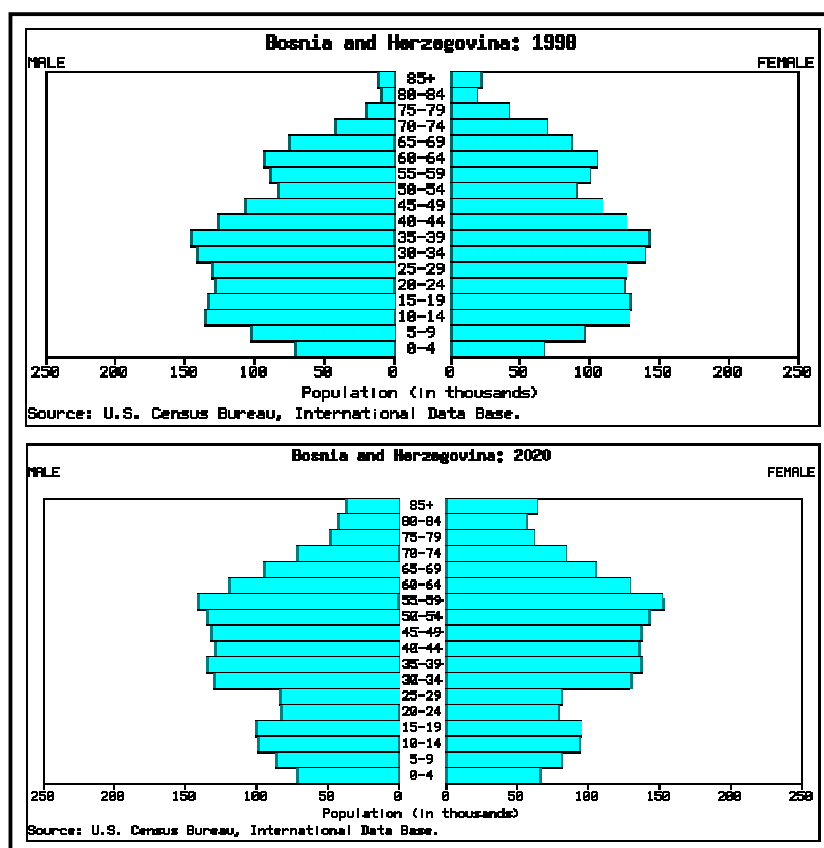
As of 1997, approximately 200,000 employees were contributing 24.5 percent of their wages to the Bosniac-majority pension fund. It provides benefits to approximately 185,000 pensioners. This pension system continues to operate under the former Yugoslav legislation with a few exceptions.

Approximately 45,000 employees contributed 17.5 percent of their wages to the pension fund in the Croat-majority area. This fund pays benefits to almost the same number of pensioners. This system has been regulated by a series of decrees and pays a flat pension benefit.

About 145,000 employees contributed 22 percent of wages to the pension fund in the Republika Srpska. The fund provides pension benefits to about the same number of pensioners.

Problems Leading to Pension Reform

The pension system in the Federation and the Republika Srpska is the largest transfer program. In 1997, pension spending accounted for 5.8 percent of GDP in the Federation, and 3.9 percent of GDP in the Republika. The pension system in Bosnia and Herzegovina faces several constraints. The most immediate constraint is the systematic accumulation of pension arrears as many employers have evaded payroll



contributions. In the Bosniac-majority, pension arrears were estimated at DM 300 million (which was greater than the pension fund's expenditures in 1997). In the Republika Srpska, the pension fund shortfalls caused payment delays. In the future, it will be important for legislation to re-define benefit rules so that statutory benefits actually match benefits paid.

Another challenge is provide a safety net for low-income beneficiaries by raising the minimum pension levels. In the Bosniac-majority areas and the Republika Srpska, a wide variation exists between minimum and maximum pensions. The fund covering the Bosniac-majority area had a high ratio of 8:1 maximum to minimum pension benefits (in the Republika Srpska the ratio is 5:1).

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SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	3,366	3,564
Life Expectancy at Birth (Years)	63.03	78.16
Total Fertility Rate (Child Born per Woman)	1.14	1.38
Age Dependency Ratio (percent)	27.3	42.3
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	-0.6	0.0

Source: U.S. Bureau of the Census, International Data Base.

Economic	1996
GNP (PPP in billions) ¹	n/a
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	n/a
GNP Per Capita (in PPP) ¹	n/a
Inflation Rate (percent) ²	n/a
Labor Force Participation Rate (percent) ³	46.4
Unemployment Rate (percent) ⁴	70.0

Source: ¹World Bank; ²IMF; ³International Labour Office; ⁴Central Intelligence Agency.

Pension	1997
System Dependency Ratio (percent)	n/a
Employee Contribution for Pensions (percent of earnings)	
Bosniac-majority areas	24.5
Croat-majority areas	17.5
Republika Srpska	22.0
Employer Contribution for Pensions (percent of payroll)	n/a
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent)	n/a

Source: U.S. Social Security Administration.

There is also the need to limit costs associated with administering multiple pension schemes in a small country. Communication between pension funds operating in Federation and the Republika Srpska has been minimal. There is a need to establish a broader level of cooperation between the three separate systems.

Pension Reform Efforts

In 1997, the Management Board of the Bosniac pension fund limited the legal entitlement of pension benefits to what is actually paid in an effort to eliminate the accumulation of pension arrears. In order to improve the targeting of pensions, the Board also decided to flatten benefit payments by increasing the minimum pension while reducing the ceiling on maximum pensions. As a result, the pension payment ratio was reduced from 8:1 to 6:1. The Federation Ministry of Social Protection and the two pension funds have been working together to develop the new Federation Pension Law, which will include several reform measures including: an increase in the retirement age to 65 by 2000; an increase in the minimum required service period from 15 to 20 years; an increase in the number of consecutive years used as the assessment base for pension calculations from 10 to 15 years; an improvement in the indexation method for tying pension adjustments to the availability of regular pension resources; stricter eligibility rules related to survivors; and stricter rules concerning partial

disability benefits. The law was submitted to Parliament in April and implemented in June 1998. Also, both pension funds in the Federation have recently implemented a new registration campaign in efforts to eliminate fictitious pensioners and tighten eligibility criteria.

In order to minimize the costs associated with administering multiple pension schemes, a Working Group has been established to develop a process for the unification of the two pension schemes in the Federation. The Working Group will develop a detailed plan for the unification, which is expected to be implemented by June 1999.

In Republika Srpska, pension payments are made only through direct cash payments to those entitled, in efforts to target payments to the appropriate individuals and avoiding payments to fictitious pensioners. The levels of pensions for most individuals are extremely low and payments are often delayed. More comprehensive reform efforts, including the introduction of a privately funded system, will need to be studied in the near future.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		
Formulation of proposals	✓		
Development of draft legislation	✓		
Introduction of legislation by parliament	✓		
Review of legislation by parliament	✓		
Passage of legislation by parliament			
Implementation of legislation			